

S E C R E T

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## ROTH/STEVENS "EARLY OUT" RETIREMENT BILL

PROVISIONS OF BILL

- ° Would permit government employees (including Agency) to voluntarily retire (at employee's option) earlier than normal.
- ° Would also establish ceiling reductions by: (1) establishing a ceiling equal to on duty strength as of 1 July 86 (2) reducing ceiling further by restricting the hiring of replacements for those retiring between 1 July 86 & 1 Jan 87, and (3) maintaining new ceiling through 1991.
- ° Would allow employees to retire taking a reduction in annuity of 2% for each year under age 55, under the following liberalized criteria:
  - Any age with 25 years of service
  - Age 50 with 20 years of service
  - Age 55 with 15 years of service
  - Age 57 with 5 years of service
- ° Must retire between 1 July 86 and 1 January 87.

POTENTIAL IMPACT ON AGENCY

- ° Would increase eligibles to retire by 31 Dec 86 from 1428 (8% of Agency) to 3656 (20% of Agency).
- ° 60% of Agency SIS employees would be eligible; 80% in DO.
- ° 37% of Agency GS 14/15's would be eligible; 46% in DO & DA.

CURRENT STATUS OF LEGISLATION

- ° Senate Hearing held 15 May - D/OPM testified stating: concept acceptable with modifications; President must be given authority to exempt any agency he feels should be excluded; greater flexibility required to hire replacements; potential serious harm to national defense and other critical programs.
- ° Senator Roth acknowledged modifications required. Other Committee Members expressed concern for negative impact.
- ° House has not, as yet, developed a similar bill.
- ° Administration still not clear on extent it could support such a Bill.
- ° Unions generally supportive, but have reservations on loss of jobs and potential "contracting out".
- ° No further Senate hearings have been scheduled.
- ° Readings from SSCI staffer is that Bill not going anywhere soon - if ultimately considered will probably not look like original proposal, but will adhere generally to Administration's desires.

SECRET

RETIREMENT ANNUITY TAXATION LEGISLATION

PROVISIONS OF HOUSE BILL:

- Eliminates "Three-Year Rule" that allows tax-free period immediately after retirement until employee contributions are recovered.
- Applies "General Rule" to all annuities, prorating recovery of contributions over actuarial life expectancy of annuitant.
- Effective for annuities beginning after 1 July 1986.

PROVISIONS OF SENATE FINANCE COMMITTEE PROPOSAL:

- Same provisions as House Bill with two exceptions:
  - A. Phased in over a two-year period;
  - B. Effective for annuities beginning after 1 January 1988.

AFFECT ON EMPLOYEES:

- These bills would cause high-ranking employees to incur as much as \$20,000 in additional tax liability in the first year of retirement. Lower ranking employees would also incur additional tax liability in first year.

CURRENT STATUS OF LEGISLATION

- House Bill approved by full House;
- Senate Finance Committee proposal not yet approved by full Senate. Senate to consider in early June;
- House/Senate Conference required to work-out differences in respective tax reform bills;
- Resolution by Congress not expected by the 1 July effective date contained in House Bill;
- Guess is that Congress will pass Bill but with an effective date no earlier than 1 January 1987 and perhaps as late as 1 January 1988.

PERCENTAGES ELIGIBLE TO RETIRE AS OF 1 MAY 1986

BREAKDOWN OF ELIGIBLE RETIREES BY DIRECTORATE

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